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The World Bank: Quo Vadis?
Environmental and social safeguards under review

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For the first time, the World Bank is undertaking a comprehensive review of its environmental and social safeguard policies. This will crucially affect the future financing and design of development projects as well as the transparency of international financial institutions and the ways in which they are held accountable. The Bank's safeguard policies set the standards needed to ensure that its development projects all over the world are socially equitable and ecologically sustainable. They also establish a duty of care for stakeholder institutions. The existing safeguard policies are inadequate and obsolete, however, and eighteen months into the two-year review process, it is still unclear if the reform will set the right policy course.

The World Bank's safeguard policies

As the largest multilateral development bank, the World Bank has a clear mandate to fight global poverty: this is reflected in its slogan, "Working for a World Free of Poverty". It seeks to achieve this goal primarily through the instrument of Investment Lending, i.e. loans which provide financing for longer-term projects and programmes. Investment loans account for the major share – 75-80 per cent – of the World Bank's business, followed by short-term Development Policy Loans (around 20 per cent) and Program-for-Results (PforR), a newer type of financing instrument which links the disbursement of funds directly to the delivery of defined results and currently accounts for around 5 per cent of the Bank's lending. This makes Investment Lending by the World Bank one of the most influential instruments deployed in multilateral development policy. However, the World Bank has frequently been criticised for its role in funding projects and programmes which have caused sometimes devastating social and environmental impacts. Examples are major infrastructural projects, controversial oil and mining schemes, and the construction of dams. These types of project are frequently the focus of local and transnational protests by civil society and are often said to be indefensible on social, environmental and human rights grounds.

The social and environmental standards applicable to Investment Lending are embodied in the World Bank's safeguard policies (or safeguards, for short) developed in the 1980s and the early 1990s. They define basic standards which must be met by the Bank and its public sector clients during project implementation. They also provide a frame of reference for other stakeholders and serve as guidelines for global, regional and national project and programme financing. In Germany, for example, they are the basis for many export credit guarantees provided under the government's scheme to protect the private sector's overseas exports and projects against political risks. These guarantees often have a substantial influence on these business arrangements. The significance of the safeguards thus extends far beyond the World Bank's own development projects and reaches into many different levels of governance.

Broadly speaking, the safeguards, in their present form, cover eight thematic areas: environmental assessment, natural habitats, pest management, forests, safety of dams, physical cultural resources (monuments, sacred sites, etc.), involuntary resettlement, and indigenous peoples.

Overdue reforms

There is a general consensus that the existing safeguards are inadequate and are long past their sell-by date. This is primarily apparent from an assessment performed by the Independent Evaluation Group (IEG) in 2010. The IEG is part of the World Bank Group but operates relatively independently. Its assessment revealed some major deficiencies in the safeguards. Besides procedural shortcomings, these mainly relate to the weak focus on social aspects, with just two out of the eight core policies dealing with social impacts. Working conditions and dimensions of gender justice are largely absent from the safeguards at present. A further weakness concerns the current institutional procedures and incentives to support implementation of the safeguards: the World Bank places too much emphasis on project planning and not enough on the implementation phase and monitoring. Considerable weight is given to the Bank's own requirements, offering little flexibility to respond to differing local conditions, whereas there is an under-emphasis on client responsibility ("compliance focus", rather than "ownership focus"). The engagement of affected communities in project planning is also under-prioritised. Rigorous assessment of social and environmental risks and their possible consequences has also received too little attention and resources within the Bank itself. A frequent criticism is that instead, a project approval mentality prevails. The lack of effective incentives to encourage the consistent application of the safeguards is also highlighted as a shortcoming.

Further deficiencies are apparent from civil society's frequent criticism of World Bank projects. According to the German organisation Urgewald, for example, the World Bank has mainly focused on credit risks but has rarely shown any concern for potential social and environmental impacts. A dramatic example, according to Urgewald, is the Chad-Cameroon oil pipeline project supported by the World Bank. Planning and construction of the pipeline have been ongoing since the early 1990s, with disastrous consequences for the environment and local communities. Civil society organisations are also highly critical of the Bank's lack of democratic control mechanisms.

Thirdly, since the 1990s, there has been considerable progress on developing environmental, social and human rights safeguard frameworks elsewhere in the international development finance community, notably in other development banks, which has made it quite apparent that the World Bank safeguards are no longer fit for purpose. Within the World Bank Group itself, the International Finance Corporation (IFC), which provides financing for private sector ventures, has updated its Sustainability Framework in an eighteen-month stakeholder consultation process. The revised standards are effective as of 1 January 2012. Regional development banks have introduced similar reforms and have elaborated their standards into more comprehensive and coherent rules in some cases.

A further reason for the growing pressure to reform is the normative debate about expectations that the design of economic projects will take account of social and environmental aspects, which has gained significant momentum in recent years. The stronger demand for, and recognition of, human rights standards should be mentioned in particular in this context. Since the United Nations Human Rights Council unanimously endorsed the UN Guiding Principles on Business and Human Rights in June 2011, the World Bank now also faces the challenge of incorporating the demand for human rights due diligence, enshrined in the Guiding Principles, into its own normative framework and establish appropriate mechanisms for its implementation.

Against the background of this multi-layered pressure to reform, the World Bank – as part of its longer-term efforts to undertake a comprehensive reform of its institutional architecture – began a two-year process to review and update the environmental and social safeguard policies in autumn 2012. The stated objective of the review process is to strengthen the safeguards and thus enhance the development effectiveness of the projects and programmes supported by the World Bank. To that end, an integrated safeguards framework is likely to be produced, with better coordinated and more coherent principles, policies and procedures, more clearly formulated goals, and a clear division of roles between the Bank and clients. During the first year of the review, consultations took place with invited stakeholder groups in around 30 countries. In addition, there are online forums in which reform proposals can be made by interested parties. The current second round of consultations aims to produce a first draft integrated framework by early 2014.

What should the reform achieve?

The current review is accompanied by clear demands for a genuine strengthening of the social and environmental safeguards. Many of these stem from the IEG's comprehensive evaluation, but civil society groups have also submitted various proposals to feed into the review. Other key demands are being developed with reference to the normative framework provided by the UN Guiding Principles on Business and Human Rights.

In order to address the most significant defects visible in the safeguards, they require radical revision in four areas: (1) the formal design of the social and environmental safeguards; (2) the content and scope of the social aspects; (3) procedures for implementation, monitoring, information management and grievance mechanisms; and (4) the internal incentive structure to support implementation.

1) An integrated framework with clear objectives and procedures

The safeguards should take the form of a comprehensive framework which consolidates and thematically enhances the existing standards. In line with the recent reforms undertaken by the IFC, this framework should be a hierarchically structured, coherent system consisting of three policy layers and providing clarity on the safeguards' objectives, the division of roles and responsibilities between the Bank and clients, and guidance on implementation. As the top layer, an umbrella policy should formulate general principles. Rather than focusing on the overall goal of "development effectiveness", this should be aligned with the international human rights conventions and sustainable development principles. The Universal Declaration of Human Rights, adopted in 1948, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights should form the basic framework. Fundamental workers' rights and working conditions, as defined in the ILO's Tripartite Declaration on Multinational Enterprises and Social Policy, should also be incorporated into the general principles. The second layer of the framework should encompass a set of issue-specific policies. Here, the Bank must widen the scope significantly, compared with the current safeguards, primarily in order to include core social aspects (see Section 2 below). The third layer should consist of broader operational parameters for the implementation phase.

2) A comprehensive issue-specific policy programme

At the practical policy level, a core document is required, setting out all the various steps to be taken, from risk and impact assessment to project and programme categorisation, allocation of roles and responsibilities, and monitoring and evaluation, external consultation and grievance mechanisms. In accordance with the principles defined above, it is essential to introduce issue-specific policies that are aligned with all the internationally recognised human rights and ILO labour standards, thus ensuring that the World Bank safeguards are compatible with the UN Guiding Principles on Business and Human Rights.

3) Transparency, third party monitoring and grievance mechanisms

The review must ensure that from now on, consultation with affected communities and the formulation of goals and responsibilities between lender and client are given high priority during project planning. The implementation phase must focus to a much greater extent on the actual enforcement of the safeguards; the Bank must achieve this primarily by establishing dialogue-based information and monitoring systems. "Dialogue-based" means more than simply a one-way flow of information to the communities; it recognises that feedback and grievance mechanisms also have a key role to play at every stage in the project process. These grievance mechanisms, together with compensation schemes for stakeholders adversely affected by project impacts, are directly based on the UN Guiding Principles on Business and Human Rights.

4) Incentive systems for effective implementation

And finally, the review must establish a new institutional structure, within the Bank, that gives the highest priority to rigorous implementation and monitoring of projects' social and environmental impacts. Responsibility for performing this role in relation to all projects must lie with a central unit, which must have adequate staff and financial resources. This will ensure that the Bank avoids situations in which time and budgetary constraints and a lack of incentives lead to project managers failing to comply with social and environmental safeguards.

Outlook

Although the World Bank itself describes the review process as open and highly transparent, there are, in practice, clear constraints on the extent to which this type of global process can be genuinely participatory. National governments and invited stakeholders can make submissions to the review process, but participation in the carefully selected focus groups is out of reach, in most cases, even for well-organised civil society groups. Critics claim that until now, the World Bank has quite simply been resistant to criticism and reform proposals, even if these came from within its own ranks.

It already seems likely that an integrated framework will be established as a means of achieving formal policy coherence and supporting implementation. This is a step forward and is in line with the reforms already carried out by the IFC and regional development banks. In procedural terms, too, the review is likely to bring about specific changes that give greater weight to the implementation phase. It is debatable, however, whether it will place the emphasis primarily on client ownership – which would merely create more flexibility in the safeguards' application while shifting responsibility to the client – or whether it will consistently strengthen third party monitoring and the involvement of affected communities. What is needed here, in line with the UN Guiding Principles on Business and Human Rights, is a broader range of grievance mechanisms and compensation schemes.

The defined objectives and the somewhat muted comments on the progress of the reform suggest – according to civil society observers – that the review will focus mainly on procedural matters and will therefore be too weak. This might even water down the social and environmental standards, instead of strengthening them. In the other areas mentioned, too – a thematic expansion in line with the UN Guiding Principles and the ILO's Tripartite Declaration, and the creation of effective internal incentive systems – it is difficult to predict exactly which measures will be introduced. There is certainly no prospect at present of the World Bank safeguards being aligned with the human rights conventions; indeed, such a move would be highly improbable. In this respect, the significant – albeit disjointed – improvements yielded by the review, such as the inclusion of the ILO core labour standards, are likely to be small in number. Consistent alignment with the UN Guiding Principles is an improbable scenario and did not feature in the IFC reform.

The second phase of the review process is due to end in early 2014, when a first draft of the new framework will be published. If, as sketched out above, the review does indeed fall short, in substantive terms, of what is required, this would not only waste a significant opportunity for more socially equitable and environmentally sustainable World Bank projects in the near future. It would also send out a weak message about the importance of social and environmental standards to other international private and public financial institutions. Coherence on human rights and on social and environmental standards within the existing global governance architecture would, yet again, have to wait. Ultimately, the member states, including the German government, have a responsibility to fulfil their duty to protect human rights – and this applies to their cooperation in the World Bank as well. Germany should therefore make pro-active efforts to strengthen the World Bank's social and environmental safeguards in the interests of enhanced human rights policy coherence.

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